Should I be concerned by **volatility?**

asks David Haslam, Head of Retail, Irish Life Investment Managers

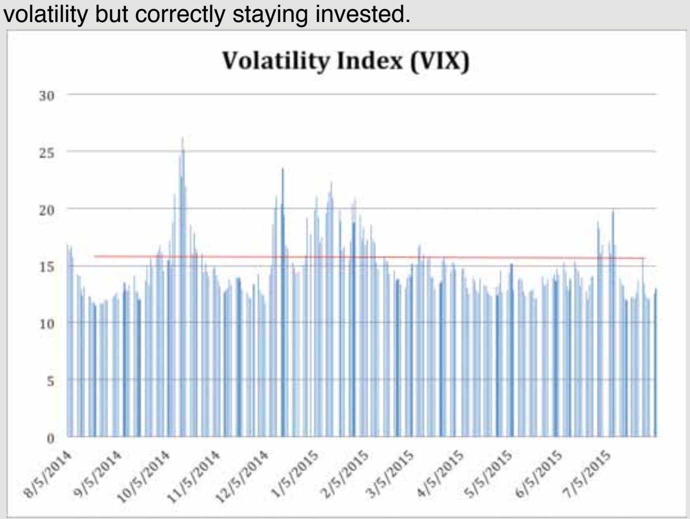
Quite a simple question to which the simple answer is no. Allow me to explain. Take, for example, a client who took your advice to invest in the average balanced fund back at the start of 2004 and stuck with you through the good times and the bad and cashed out 10 years later in 2014, after a decade of unprecedented volatility in markets. The global economy stumbled out of a global recession post the tech bubble bursting, roared its way through the tiger years, tripped and fell flat on its face during global financial crisis and yet managed to dust itself off and recover with aplomb. A bumpy journey indeed and yet your client would have done very well – in fact, thanks to your advice to stay invested, s/he more than doubled his/her money over that period. Hindsight is wonderful and if you told any client to invest for 10 years and you could guarantee doubling their money, they too would ignore short term volatility during any given period. So what does that tell us? Time is a great healer of broken hearts and broken markets. In other words by staying invested over the longer term, even through periods of extreme volatility, investors can still make good returns. Great, problem solved!

Or is it? Unfortunately, there is no hindsight and precious few guarantees around returns. Furthermore, human behaviour is such that we can end up making short term decisions about long term investments, which is a potentially fatal combination. The problem is that the fear and uncertainty that comes with short term, and often violent, rises and falls in stock markets can prompt us to act in the wrong way at the wrong time. Investors can often look at markets and feel compelled to do something – whether it is buying in a bubble or selling in a collapse. It can feel unnatural to sit back and do nothing!

So in essence, we need to address that temptation to do something. The best way to do that is to invest in a fund that manages your investment journey, manages the volatility and reduces the knee jerk urge to act. Many investors, amateurs and professionals alike, cashed out in late 2008 early 2009. They suffered significant loses and crystallised them when the markets were near or at their lows. Had they stayed invested, they would also have participated in the recovery.

The recognised way to manage volatility is by spreading your investment bets in a way that insulates you from a fall in any single investment. Often referred to as diversification, this ideally means you are invested in different assets, different geographies, different currencies, different strategies and even with different managers. Irish Life Multi-Asset Portfolios (MAPS) is designed to do just that.

As you can see from the graph here, although volatility has been relatively low for most of the last year there have been significant spikes – the kind that can unsettle investors. In October 2014, global stock markets fell by over 8% and many investors panicked and sold only to buy back at higher levels weeks later. Fortunately, along with exceptional levels of diversification which reduced the impact of the fall, Irish Life MAPS is also equipped with the Dynamic Share to Cash (DSC) process. While the model behind DSC recognised the falling market, Irish Life MAPS stayed invested through the short term fall and benefitted when markets quickly recovered. Temptation avoided. Early in 2015 and during the summer months, we saw heightened levels of volatility driven by unsettled equity markets and the unfolding crisis in Greece. The multiple strategies being deployed by multiple managers within Irish Life MAPS across multiple asset classes, geographies and currencies performed exceptionally strongly. Coupled with DSC, once again Irish Life MAPS stayed invested through the short term 'noise' that markets threw up. It is of great comfort to an investor that Irish Life MAPS was not just managing the volatility but correctly staying invested.



Source : Bloomberg

Markets are always going to be subject to periods of volatility whether it is for obvious reasons like Greece or the outbreak of war to less obvious reasons like we saw last October. It is crucial therefore to know that the funds you advise your clients to invest in can manage those market highs and lows and also have a clear and proven process by which the decision to stay invested or otherwise is being made.

Later this year the Spanish will hold elections, the US are likely to raise interest rates and the longer term solution for Greece will all filter in to markets no doubt creating uncertainty for investors. Volatility is not a point in time phenomenon – it is an ongoing part of investing. Irish Life MAPS was designed specifically with that in mind and to manage the investment journey in a clear and transparent way to address the concerns of brokers and investors alike.

Warning: The value of your investment may go down as well as up
Warning: If you invest in these funds you may lose some or all of the money you invest
Warning: These funds may be affected by changes in currency exchange rates

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